

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-213-E - ORDER NO. 2011-508
JULY 20, 2011

IN RE: Petition of South Carolina Electric & Gas)	ORDER GRANTING
Company Seeking an Accounting Order)	PETITION FOR AN
Authorizing Capitalization of the Costs)	ACCOUNTING ORDER
Incurred from the Removal and Relocation of)	WITH CONDITIONS
a Spare Generating Step-Up Transformer)	
from the V.C. Summer Nuclear Station to the)	
Arthur M. Williams Generating Station)	

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the Petition of South Carolina Electric & Gas Company (“SCE&G” or “the Company”) for an accounting order for regulatory accounting purposes authorizing SCE&G to capitalize the costs incurred from the removal and relocation of a spare generating step-up transformer from V.C. Summer Nuclear Station to the Arthur M. Williams generating station (“Williams Station”). Williams Station is owned by SCE&G’s affiliate company South Carolina Generating Company, Inc. (“GENCO”), which sells 100% of the generation output from Williams Station to SCE&G under a unit power sales agreement.

The Company asserts in its Petition that the request for relief will not involve a change to any of SCE&G’s retail rates or prices at this time, or require any change in any Commission rule, regulation, or policy. In addition, the Company further states, and we agree, that issuance of the requested accounting order will not prejudice the right of any party to address these issues in a subsequent general rate case proceeding. The Company

also asserts, and we also agree, that no notice or hearing in this matter is required. See S.C. Code Ann. Section 58-27-870 (F) (Supp. 2010).

SCE&G and the South Carolina Public Service Authority (“Santee Cooper”) are joint owners of the V.C. Summer Nuclear Station. Pursuant to an operating agreement, SCE&G controls and operates the station and all the interconnection facilities at the site and is entitled to two-thirds of the electrical power output from the station. Santee Cooper is entitled to the remaining one-third of output and is responsible for one-third of the cost of purchasing equipment for the facility, as well as the costs associated with operating and maintaining the facility.

In 1984, SCE&G and Santee Cooper purchased a 1,000 megavolt ampere 22-240 kilovolt generating step-up transformer (the “GSU Transformer”) for use at the V.C. Summer Nuclear Station at a cost of \$6,636,550. Pursuant to the joint ownership and operating agreement between the two, SCE&G maintained a two-thirds ownership interest in the GSU Transformer, and Santee Cooper maintained a one-third ownership interest. SCE&G’s two-thirds ownership interest in the original cost was \$4,424,367.

The GSU Transformer was removed from service in late 2009. As of December 31, 2009, the net book value of the GSU Transformer was approximately \$2,277,285.

In addition to the V.C. Summer Nuclear Station, SCE&G owns and operates several fossil fuel and hydro electric generating facilities located throughout the Company’s service territory (“Fossil/Hydro Fleet”). SCE&G states that, to ensure continued system reliability, it had a need to purchase a spare transformer for this Fleet. Transformers such as the GSU Transformer are long-lead time items, which means that

this equipment takes a significant amount of time to procure and subsequently place into service. The Company notes that if a generating step-up transformer became inoperable at one of SCE&G's plants requiring removal from service, the electric generating facility would be taken off-line until another generating step-up transformer could be installed. Having a spare GSU Transformer readily available for the Fossil/Hydro Fleet reduces the time a unit would be off-line in the event of failure, thereby enhancing system reliability.

On October 1, 2010, SCE&G and Santee Cooper entered into a Purchase Agreement, whereby SCE&G would acquire Santee Cooper's one-third ownership interest in the GSU Transformer in exchange for payment of one-third of the net book value of the transformer, or \$759,095. Federal Energy Regulatory Commission ("FERC") approval of the transaction was required, and FERC approved the transaction by order dated December 8, 2010. On December 15, 2010, SCE&G consummated the transaction by paying Santee Cooper the \$759,095. In accordance with Generally Accepted Accounting Principles ("GAAP"), SCE&G recorded the \$759,095 as an increase to its book value in the GSU Transformer.

SCE&G asserts that, due to the heavy construction activity and traffic associated with the construction of V.C. Summer Nuclear Station Units 2 and 3, continued storage of the GSU Transformer at the V.C. Summer Nuclear Station would limit SCE&G's ability to quickly deploy the transformer to a plant in its Fossil/Hydro Fleet if needed. Therefore, SCE&G removed the GSU Transformer from the V.C. Summer Nuclear Station and relocated it to Williams Station, so that, in SCE&G's view, it can be deployed within its Fossil/Hydro Fleet more efficiently and in a timely manner when needed.

In addition to the \$759,095 paid to Santee Cooper for its one-third interest in the GSU Transformer, SCE&G incurred an additional \$1,674,851 in costs associated with the removal and relocation of the GSU Transformer from V.C. Summer Nuclear Station to Williams Station.

SCE&G states that, because the GSU Transformer was removed and relocated and not retired from service, standard utility accounting practice requires that the \$1,674,851 be expensed. However, SCE&G believes that, in this case, it is reasonable and in the best interests of SCE&G's customers that the Company capitalize the \$1,674,851 as an incremental capital cost of the spare GSU Transformer. The Company believes that the removal and relocation of the GSU Transformer from the V.C. Summer Nuclear Station to Williams Station allows SCE&G and its customers to realize the full benefit of having a spare GSU Transformer, because it can be deployed more easily when needed, thereby decreasing the amount of time a plant may be out of service.

The Company states that to be sure it had a spare generating step-up transformer that was available to be deployed when needed, SCE&G could have purchased a new transformer. However, SCE&G believes that this would have cost the Company approximately \$7.5 million. SCE&G further believes that by buying out Santee Cooper's interest in the old GSU Transformer and moving the transformer to Williams Station, it saved more than \$5 million, which directly benefits its customers. This is set out as follows:

Estimated cost for a new GSU Transformer:	\$7,500,000
Less amount paid for Santee Cooper's one-third interest:	\$759,095
Less removal and relocation costs:	<u>\$1,674,851</u>
Total estimated savings	\$5,066,054

Accordingly, SCE&G requests that the Commission grant the Company authorization to capitalize, as incremental cost of the GSU Transformer, the \$1,674,851 in costs incurred from the removal and relocation of the spare GSU Transformer from V.C. Summer Nuclear Station to Williams Station.

The Office of Regulatory Staff ("ORS") filed comments on the proposal by letter dated June 23, 2011. ORS states that discussions with the Company revealed that the spare GSU Transformer under consideration is classified as transmission property, and, if placed into service, would not be assigned to a specific generating station, regardless of its final location. Instead, according to ORS, it would remain in the transmission plant account. SCE&G has also agreed, according to ORS, to use its lower system composite depreciation rate for step-up transformers of 2.21% for this spare until such time as it is inserted into the Company's transmission system, whereupon the depreciation rate will revert to the rate of the plant to which it is deployed. ORS has no objection to the Company's request if these items are approved by this Commission, in addition to the Company's original requested relief.

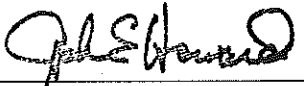
We have examined this matter, and grant the Company's Petition for an accounting order, with the addition of the items requested above by the Office of Regulatory Staff. Clearly, the Company has saved the cost of purchasing a new transformer by utilizing the old GSU Transformer as a spare and moving it to the Williams Station for easier deployment.

We hereby grant the Company authorization to capitalize, as incremental cost of the GSU Transformer, the \$1,674,851 in costs incurred from the removal and relocation of the spare GSU Transformer from V.C. Summer Nuclear Station to Williams Station, subject to the additional conditions described by the Office of Regulatory Staff in its June 23, 2011 letter. The GSU Transformer, which is presently classified as transmission property, will remain in the transmission plant account, regardless of its final location. The Company will also use its lower system composite depreciation rate for step-up transformers of 2.21% for this spare GSU Transformer until such time as it is inserted into the Company's transmission system, whereupon the depreciation rate will revert to the rate of the plant to which it is deployed.

Again, however, this Accounting Order will not prejudice the right of any party to address this issue in a subsequent general rate case proceeding.

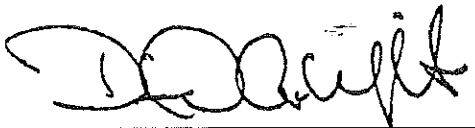
This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



John E. Howard, Chairman

ATTEST:



David A. Wright, Vice Chairman

(SEAL)